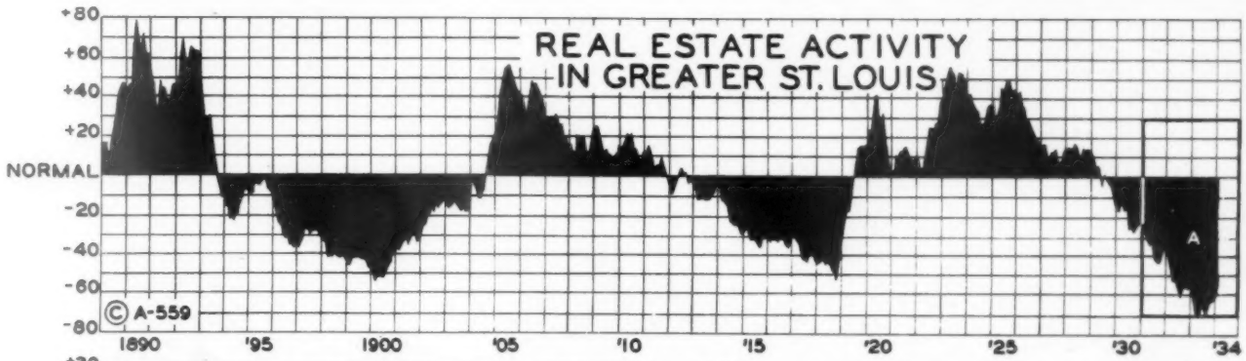
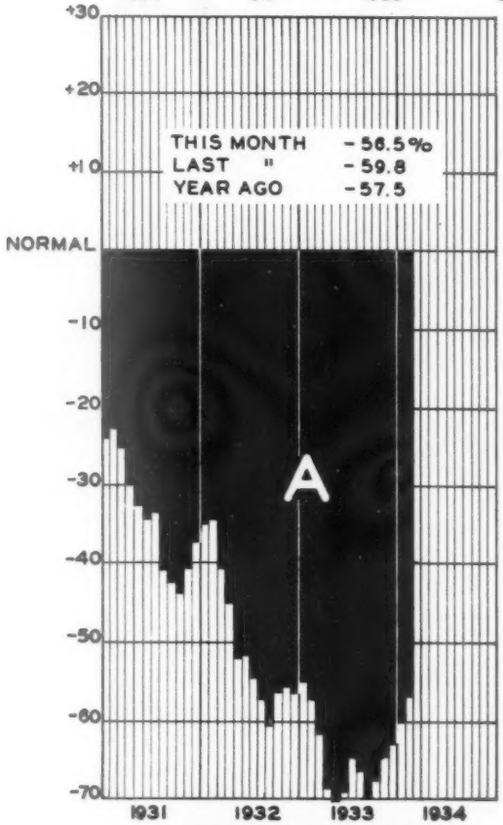
MARCH, 1934

The Real Estate ANALYST

SAINT LOUIS EDITION



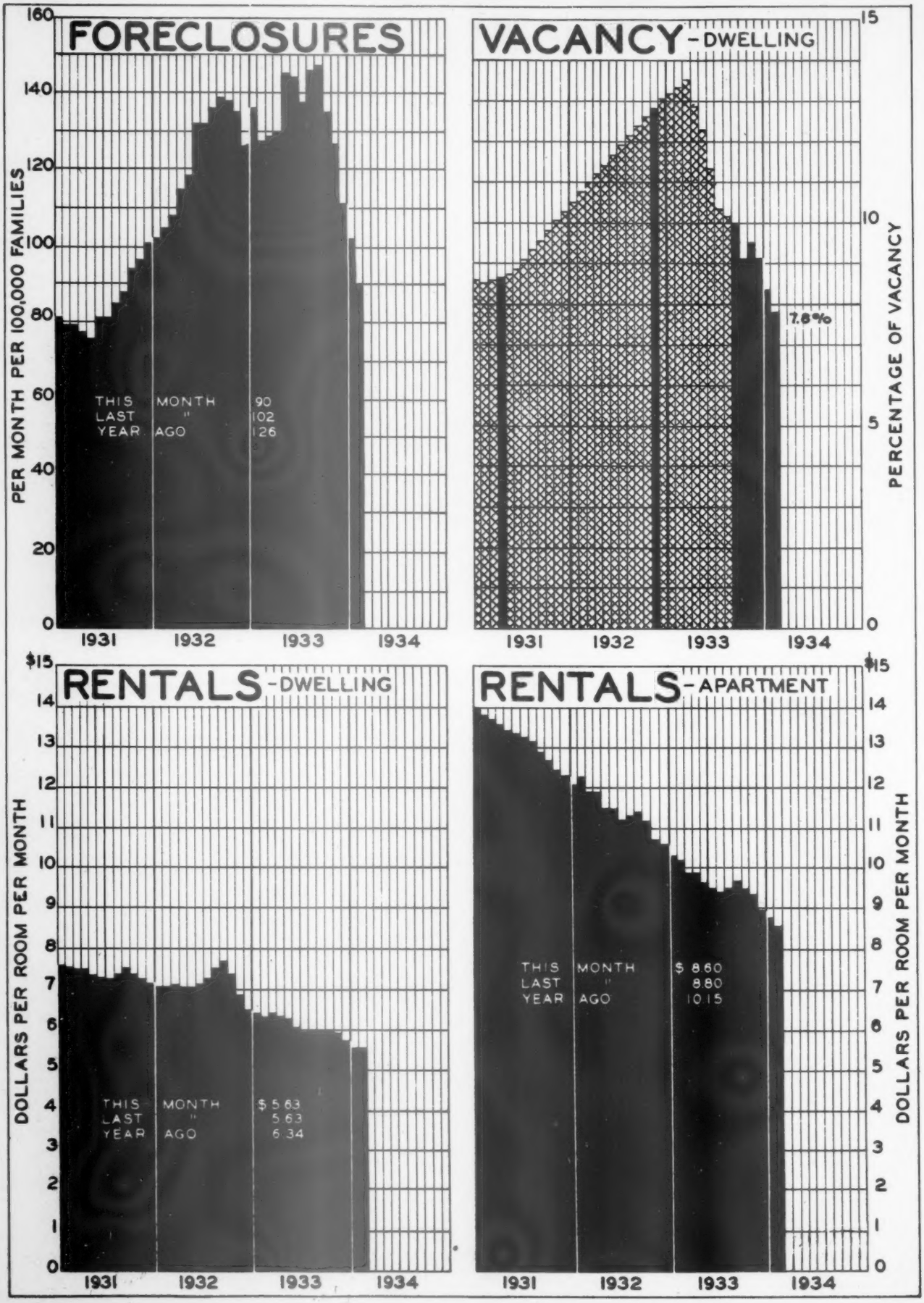


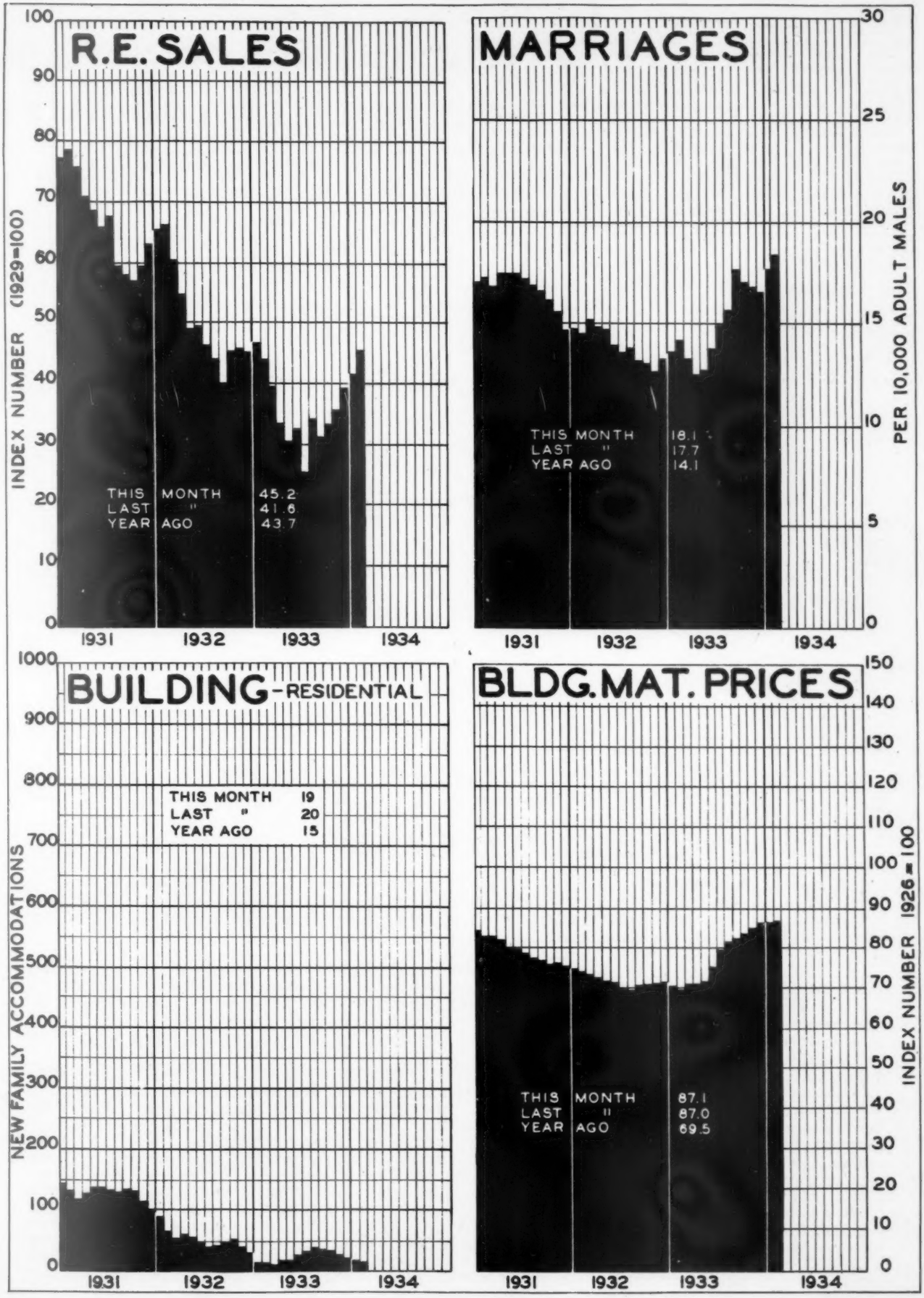
FOR the fifth consecutive month, real estate activity has increased as shown on the enlarged section to the left of the Real Estate Activity chart shown above. That it is now definitely heading back toward the normal line even the most skeptical must admit. Our forecast in the January issue said, "We believe real estate activity may get to -40 or -35 by the end of the year". This will require continued improvement at the rate of the last five months. This seems more reasonable now than it did at the time our forecast was written in December.

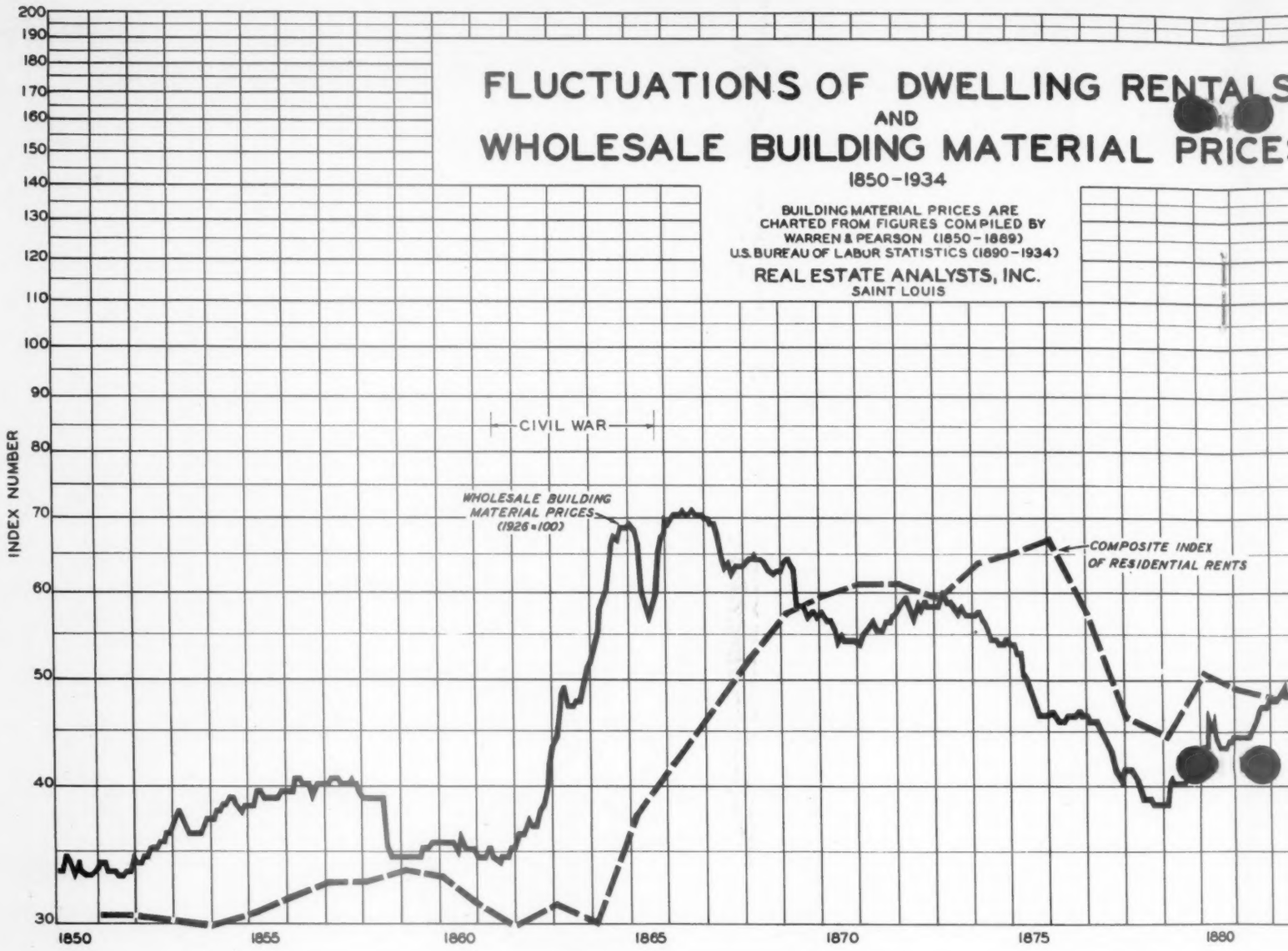
The most significant change this month is in the foreclosure rate. (See chart in the upper left hand corner of the next page.) The foreclosure rate has fallen from 147 foreclosures per month for every 100,000 families last September, to 90, a drop of approximately 39%. So large a drop without moratorium legislation of any sort in Missouri is quite significant.

The marriage rate is now higher than it has been any time during the past three years. (Chart on page 243.) Last April it was 56.7% below normal; now it is 37.3% below and climbing each month. Each increase in the marriage rate increases the number of families and absorbs vacancies.

We have added a new barometer this month, Real Estate Sales. (Page 243.) As 1929 sales of real estate throughout the country were very close to an average for a long period of years, we have used 1929 as a base and have figured each month since as a percentage of the 1929 figure. This index excludes trustee's deeds, sheriff's deeds and all such other deeds as do not clearly represent sales. The chart has been corrected for seasonal fluctuation. The improvement in sales since July, 1933 - the all-time low - is quite apparent; sales have almost doubled in this period. This consistent improvement, which we expect to continue during 1934, is most encouraging. (continued on Page 247)


FORECLOSURES
PER MONTH PER 100,000 FAMILIES
160
140
120
100
80
60
40
20
0
THIS MONTH 90
LAST " 102
YEAR AGO 126
1931
1932
1933
1934
VACANCY - DWELLING
PERCENTAGE OF VACANCY
15
10
5
0
7.8%
1931
1932
1933
1934
RENTALS - DWELLING
DOLLARS PER ROOM PER MONTH
$15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
THIS MONTH $5.63
LAST " 5.63
YEAR AGO 6.34
1931
1932
1933
1934
RENTALS - APARTMENT
DOLLARS PER ROOM PER MONTH
$15
THIS MONTH $ 8.60
LAST " 8.80
YEAR AGO 10.15
1931
1932
1933
1934

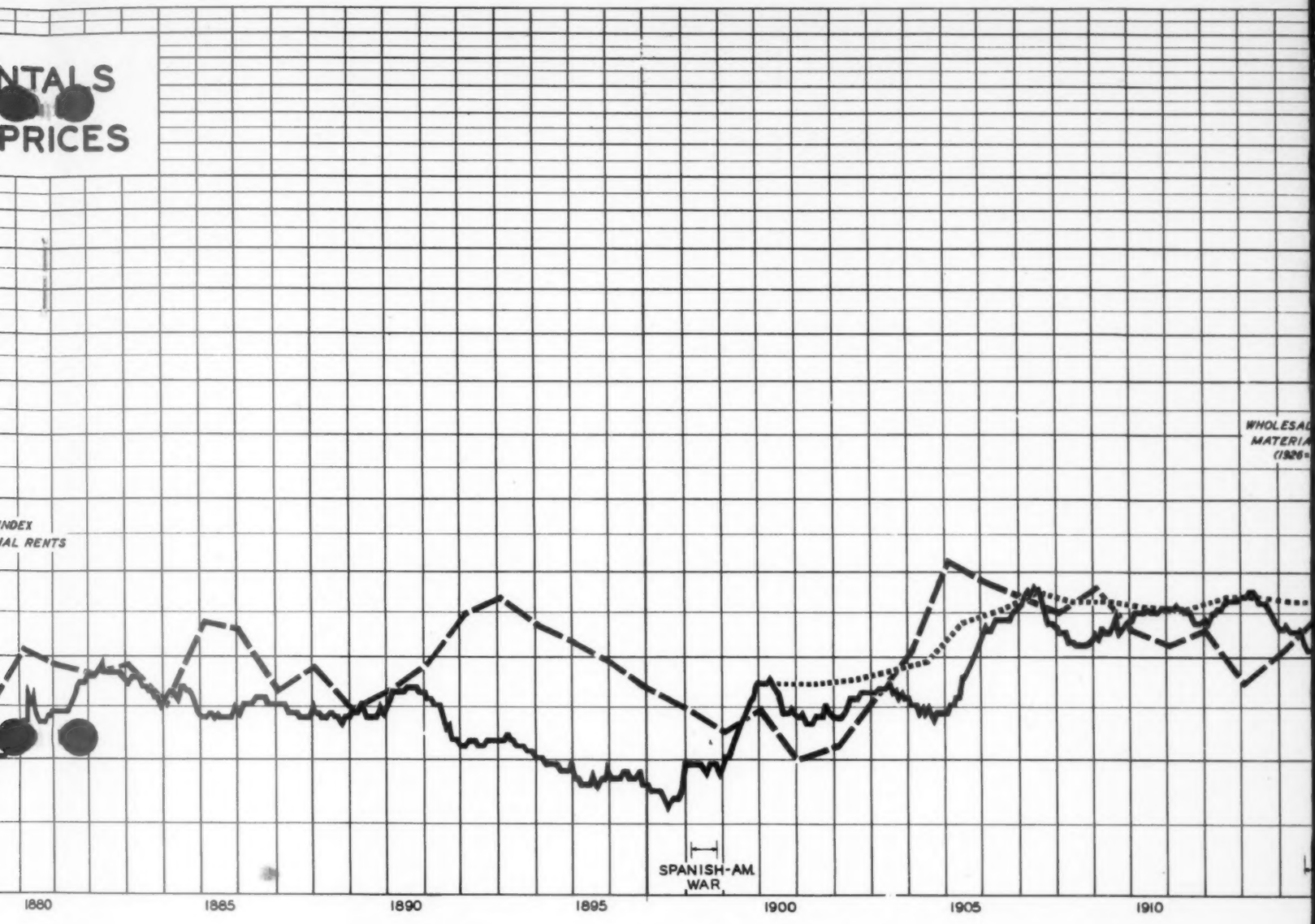

R.E. SALES
INDEX NUMBER (1929=100)
THIS MONTH 45.2
LAST " 41.6
YEAR AGO 43.7
1931
1932
1933
1934
MARRIAGES
PER 10,000 ADULT MALES
THIS MONTH 18.1
LAST " 17.7
YEAR AGO 14.1
1931
1932
1933
1934
BUILDING - RESIDENTIAL
NEW FAMILY ACCOMMODATIONS
THIS MONTH 19
LAST " 20
YEAR AGO 15
1931
1932
1933
1934
BLDG. MAT. PRICES
INDEX NUMBER 1926=100
THIS MONTH 87.1
LAST " 87.0
YEAR AGO 69.5
1931
1932
1933
1934



CONSTRUCTION COSTS, NEW BUILDING AND RENTALS

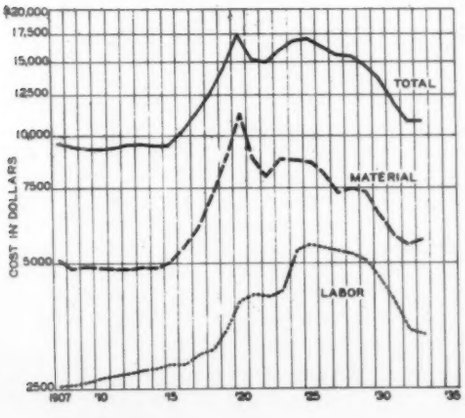
THE long chart above represents a continuation of the study in the February, 1934 issue on the effect of the 59¢ dollar on real estate. Last month we were concerned primarily with the probable amount of the increase in rentals and values. In this study we are interested primarily in the sequence of the various factors which will bring about the increase.

The solid black line in the chart above shows the variations in the wholesale price level of building materials during the past eighty-four years. We would much prefer a line showing the fluctuations of actual building costs, including labor and overhead but we know of no index of this sort covering the earlier period of our study. From 1900 to the present we have shown our own index of the actual cost of residential buildings by the dotted line. It will be noticed that these two lines are in fairly close agreement during the greater part of the period. However, during the 1916-1920 period, the rapid rise in the wholesale price of building materials was not reflected to as great a degree in the cost of an actual building. During that period there was little building, and the wages of building mechanics had not yet shared in the advance experienced in building materials. This is shown quite clearly in the small chart on the next page. The dash line on this chart shows the change in the cost of the building materials going into a residential building; the dotted line, the labor cost. As a general principle, wage rates during the last boom advanced as the volume of construction increased and actual wage rates on residential building decreased with the dimunition of building. Labor costs as shown on the chart are actual and not necessarily union. During the peak the scale paid on all building was at least to the union scale, but during most of the balance of the period, actual amounts paid on residential building in most cities in the United States were below the scale.



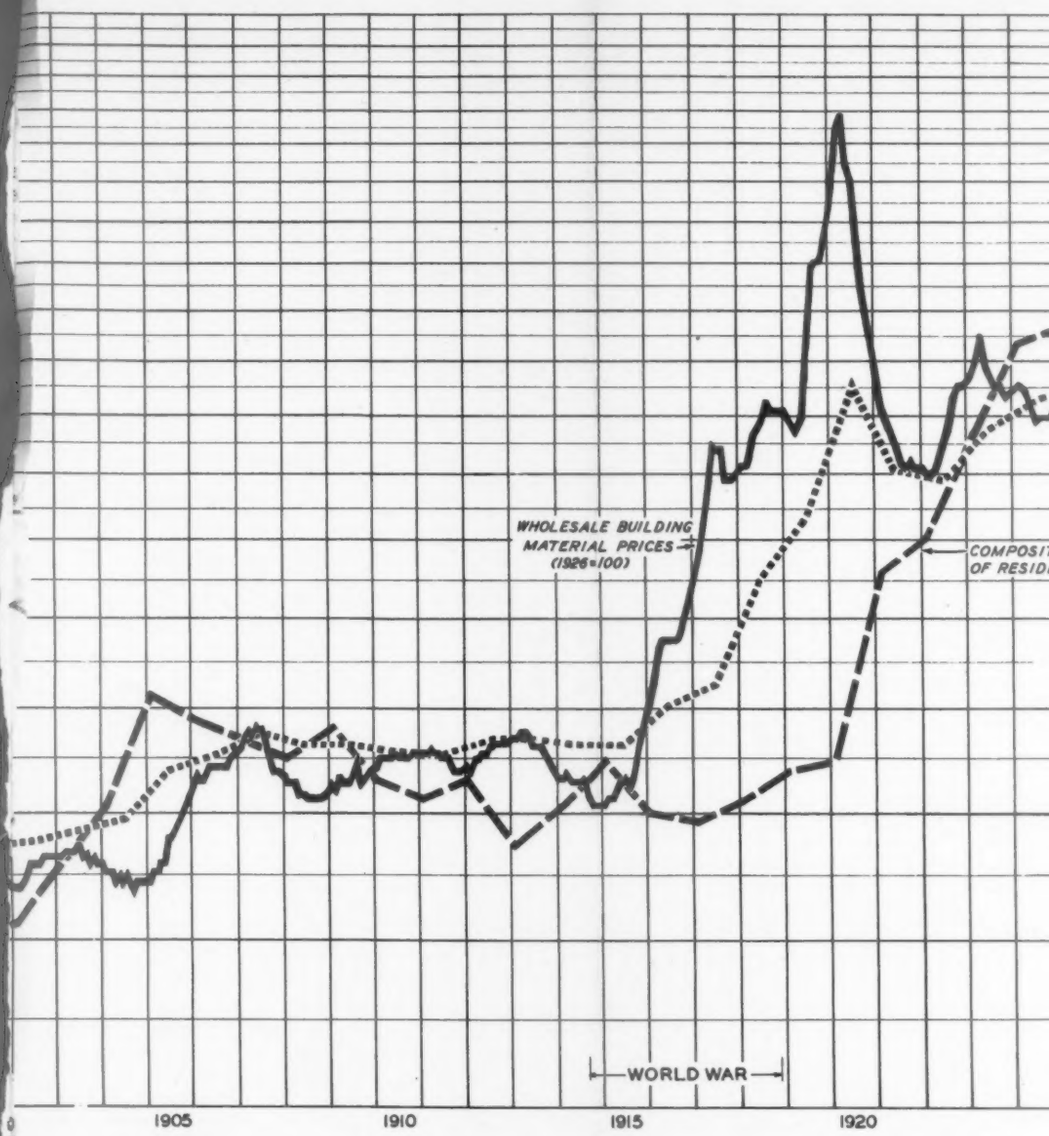
At the present time, cost of building is increasing at a very rapid rate, due to the fact that building material costs are rising and will continue to rise, and at the same time labor costs are advancing due to code provisions.

The total construction cost line on this chart is very interesting, as it shows the combined effects during the last boom of the totally different curves of labor and material. Had labor costs risen rapidly in the period from 1915 to 1920, the total cost would have risen far more rapidly than it did. However, the rise in total cost during the last boom period was sufficient to prevent any new building in any volume before 1922, in spite of the fact that the housing shortage became acute in 1919. An increase caused by increases both in material and in labor will have a still greater deterrent effect on new building during the next two years.



Building material prices are now starting to increase very much as they did during the greenback inflation of the Civil War period and the credit inflation of the World War period. In each of these cases the increase in building costs acted as a deterrent to new building and resulted in a housing shortage. In each of these cases the housing shortage doubled rentals. It seems to us that this result will naturally follow again.

How soon will rentals start up? A study of the long chart above shows that during



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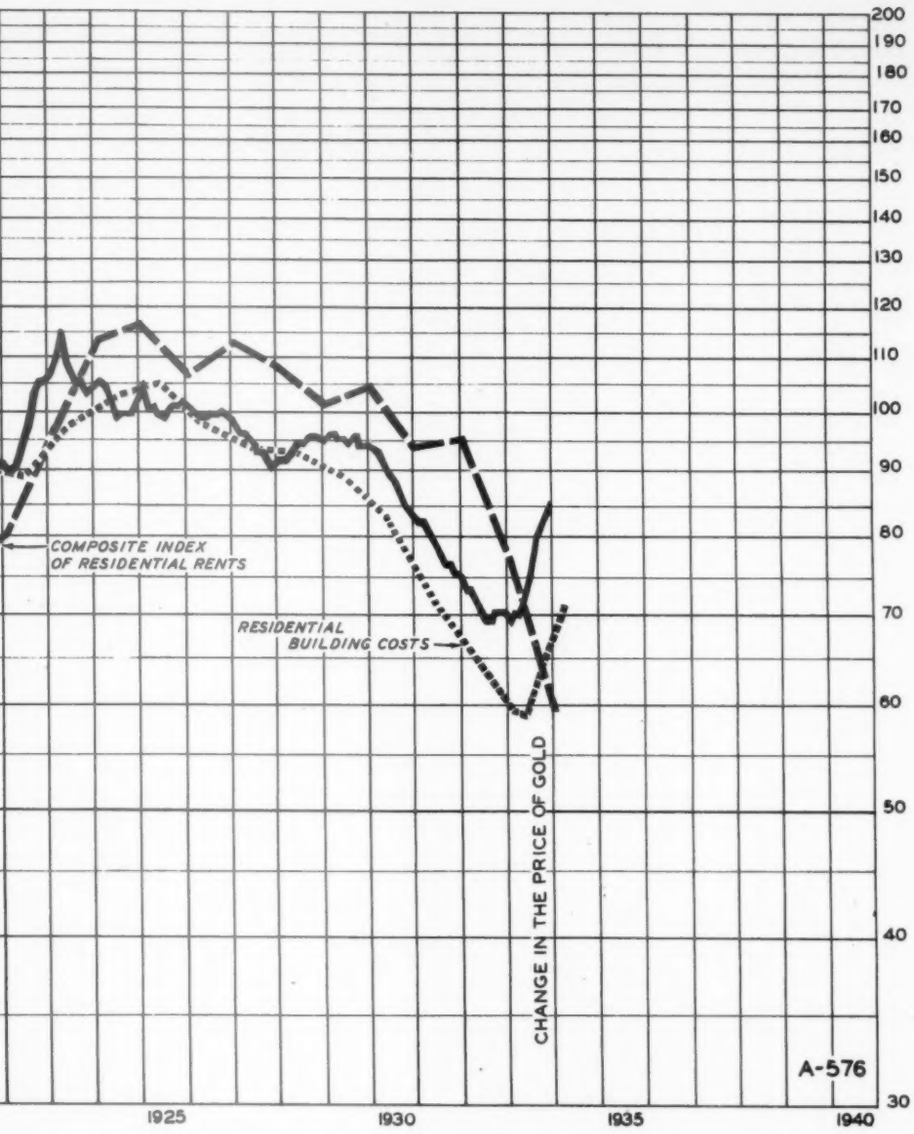
monthly vacancy survey.

If the United
rate now taking place,
or 4% by the first of
is the critical percent
the past, the increase
be very rapid, once it
advertised rent per mo
Louis increased as foll

January	
April	
July	
October	

The increase in advert
radical an increase:

January	
April	
July	
October	



period, rentals followed building material prices by about uring the World War period the lag was almost five years. The lag depends upon the length of time it takes to absorb the f space. That is the reason we are so interested in taking a cy survey.

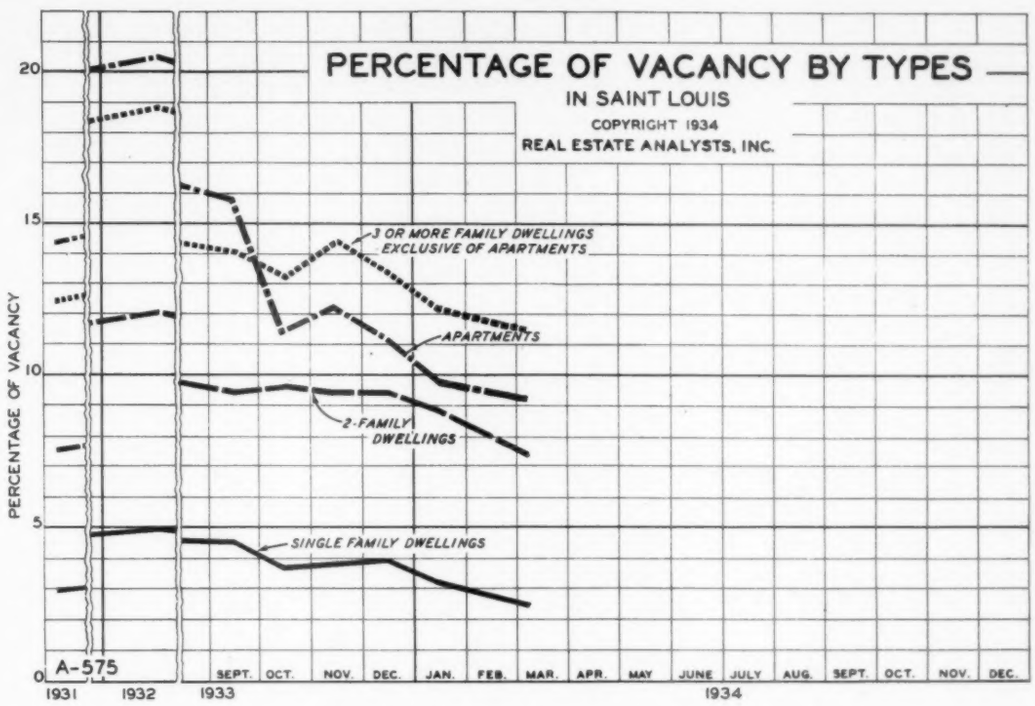
the United States continues its economic improvement at the ng place, we believe that vacancy will be reduced to about 3 first of next year. Our studies lead us to believe that this al percentage. When vacancies have gone below this point in increase in rentals has started. The rate of increase will , once it gets well under way. In 1919 and 1920, the average nt per month per room in single family dwellings in Saint ed as follows:

	1919	1920
anuary	$4.12	$5.71
pril	4.05	8.00
uly	4.82	9.35
ctober	5.08	10.30

in advertised apartment rentals started earlier but showed as crease:

	1918	1919	1920
anuary	$7.95	$10.33	$14.70
pril	8.26	10.00	15.00
uly	8.13	11.50	16.20
ctober	9.28	11.76	18.75

(Continued on Page 248)



A HOUSING SHORTAGE IN THE MAKING

REAL ESTATE ANALYSTS, INC., has expanded its monthly vacancy survey this month to approximately double the units covered in preceding months. Almost ten thousand dwelling units in all parts of the city were covered by an actual field inspection. This check indicates that general vacancy continued to drop this month at about the same rate maintained since last October, about 1/2% per month.

The larger part of the vacancy which still exists consists of units which are not desirable.

We are convinced that the entire United States is headed for an urban housing shortage which will become acute during 1935 or 1936. The result of this shortage will be to make rentals skyrocket. When this takes place - and not before - residential building under private initiative will start.

(CONTINUED FROM FRONT PAGE)

Residential rentals for one and two family dwellings showed no change in comparison with the preceding month. (Charts on Page 242.) Apartment rentals continued to drop at about the same rate maintained during the past two years. We think it likely that both apartment and one and two family dwelling rentals will stabilize before the end of the year.

New residential building is going forward at pitifully low levels. (Chart on Page 243.) This is unavoidable as new building will not start until rentals and values rise to a point where new buildings at the increased cost levels can compete with buildings already built. The owner of improved property and the real estate broker should find encouragement in the dearth of building. With a limited supply being rapidly absorbed, rentals and values will rise faster and higher than they would if the supply were being augmented.

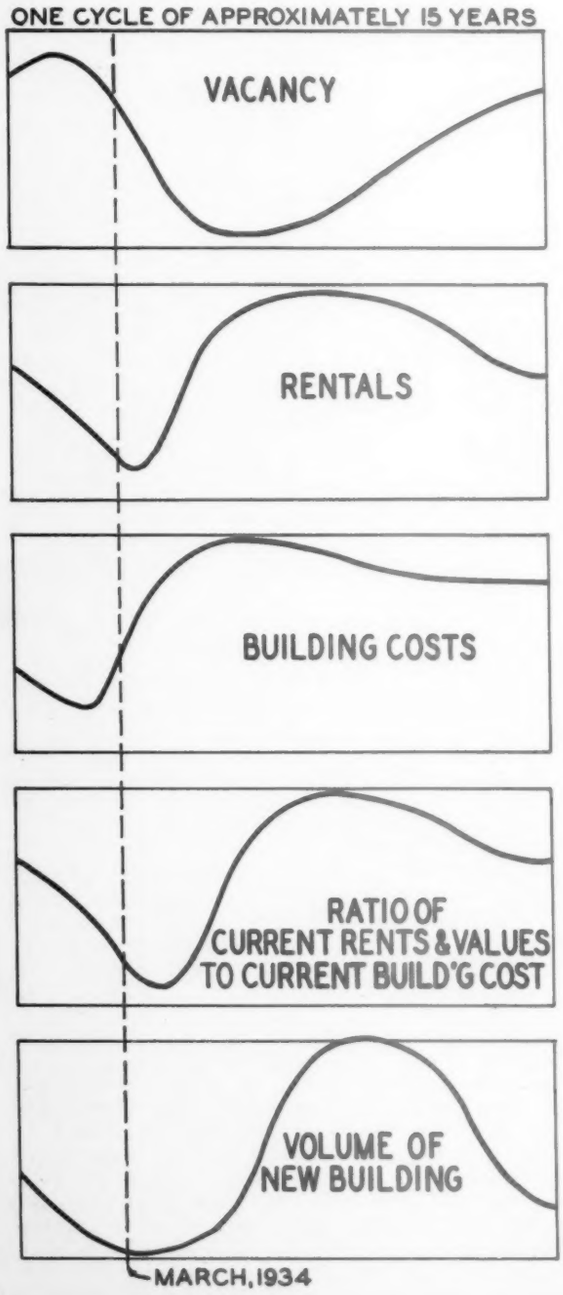
As a result of the combined effect of government purchasing for heavy engineering public works projects, code operation and revaluation, the price of building materials is rising rapidly. (Chart on Page 243.) This will be the chief deterrent to new building. In addition, it will increase values of all useful buildings directly. Our studies over a thirty-four year period indicate very definitely that values of all useful buildings increase as their replacement cost increases. (See Page 163 in the July, 1933 Real Estate Analyst for the complete study of replacement cost in its relation to sales.)

CONSTRUCTION COSTS, NEW BUILDING AND RENTALS (Continued from Page 246)

It should be borne in mind that the foregoing figures are advertised rentals and that these would reflect changes quicker than rentals on a lease basis where, of course, there would be some lag in rental changes.

There is one other lesson we can learn from our eighty-four year study of rentals and building costs. Over this period of years, rentals have kept in rough step with building costs. While there have been periods when building costs rose rapidly and rentals lagged, it is significant that over the greater part of the time the two were together. This is due to the fact that rentals are based on a necessary return on the investment in ground and building. At times, rentals are not high enough to pay this return. The inevitable result is a lack of new building during such a period, which reduces the supply of suitable buildings. This raises rentals until again it seems profitable to build. This dependence of rentals on the presence or absence of new building and new building on rentals holds the two lines together.

The sequence of events which leads to a building boom is shown by the small charts below.



The top chart to the left shows our expectations based on past cycles and present tendencies for the absorption of vacancy. The dashed vertical line on all of these charts represents the present time. It will be noticed that we have been absorbing vacancies for some time and that we expect this absorption to continue for several years longer, resulting in a housing shortage which will gradually ease as new building (shown in the bottom chart) gets under way, until by the end of the cycle, vacancy is high again, but not so high as it has been in the present distress period.

The second chart shows our ideas of probable rental fluctuations during this cycle. It will be seen that we expect rentals to sink a trifle lower before the rise starts. This rise will be the result of the falling vacancy shown in the top chart. As vacancy increases toward the end of the cycle, rentals will drop. They will not decline to anything like the present level.

The third chart shows the expected building cost variation during the cycle. Building costs declined steadily until a year ago when they started rising at a very rapid rate. We expect this line to rise, due to codes, revaluation, etc., for two to four years, then gradually to drop to a slightly lower level.

A comparison of this chart with the rental chart immediately above it shows why there is so little chance for new building at present. Rentals at the present time are too low to pay a return on the cost of a building built at the present cost of construction. With construction costs advancing rapidly and with rentals still dropping, this ratio is becoming more unfavorable each month. This ratio is shown in the fourth chart; it furnishes the incentive for a building boom. When this ratio is high it is profitable to build. As soon as the financial interests realize that real estate is profitable, financing eases and the boom gets under way. Our studies would indicate that there is generally a lag of

more than a year before the incentive ratio becomes favorable and new building starts. (See Page 198 in the October, 1933 issue.)

The bottom chart is our general impression of the next building boom. It will be seen that little residential building is expected in the next few years. The peak of the boom we expect somewhere around 1939 or 1940. We will undoubtedly overbuild in that boom as we have in all preceeding ones,causing vacancy to increase and rentals to drop as shown in the two top charts.

In this series of charts we have purposely omitted any definite scale of years or values, as it is impossible to forecast with exactness ten to twelve years in advance. However, it should be remembered that while the general business cycle has been very erratic, the real estate cycle, since the Civil War, has been extremely consistent.

We are more interested in this series of charts in getting the relationships of the various factors in mind than we are in whether the height of the next building boom will come in March or April of 19??. These relationships are fundamental and follow each other inevitably as indicated in the charts.

NOTES ON CUBIC COSTS ON PAGE 250

THE cubic costs on our standard buildings as reported on the following page show a sizeable increase over the preceeding quarter. Most items of material have advanced. Lumber and millwork have shown the largest advance; plumbing materials and many of the hard materials come next. Heating equipment, both hot air and hot water, have shown the smallest advances so far.

Most building material prices are now filed with the local code authorities in an open price arrangement sanctioned by the codes. Each manufacturer files the price and all conditions of sale for each item. It is then a violation of the code to sell to any individual at a price or on conditions of sale other than the one filed. This does away with the preferential treatment of a shrewd buyer and requires that all buyers of the same class be given the same treatment.

Due to the new Construction Code (effective March 2) unskilled labor must be paid a minimum of 40¢ an hour. Skilled workers will probably establish their rates later in each area in accordance with code provisions. When they do, labor costs will advance materially.

It seems to us that building costs are going to continue to advance at a rapid rate for the next few years.

This, of course, is desirable from the standpoint of the owner of real estate, as each increase in replacement cost adds to the value of all useful buildings already built.

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CUBIC COSTS

MARCH, 1934

CUBIC costs have advanced materially during the past three months. These advances will continue, as various code requirements for methods of setting skilled wages have not yet come into use. Building materials will also continue to advance.

MODERN BRICK BUNGALOW

Bungalow, as shown and described in pages 122 and 123, exclusive of financing and sales commission....	26.0¢
With hot air heat subtract.....	0.9¢
Without vitrolite in kitchen subtract.....	0.4¢
With financing charges and sales commission add..	2.0¢

SINGLE FAMILY TWO-STORY RESIDENCE

Single family residence, described on pages 62 and 63, exclusive of financing and sales commission.....	25.7¢
With copper guttering, spouting & flashing, add..	0.4¢
With variegated slate roofing, add.....	1.0¢
With hot water heat, add.....	1.0¢
Without tile walls in bath, subtract.....	0.5¢
Without shower & with cheap plumbing, subtract...	0.3¢
With ordinary millwork, subtract.....	0.5¢
With financing and sales commission, add.....	2.4¢

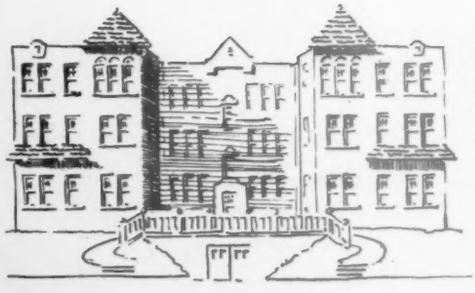
SPECULATIVE FOUR-FAMILY FLAT

Speculative four-family flat, as shown and described on pages 72 and 73, excluding cost of financing and sales commission.....	22.6¢
With copper guttering, spouting & flashing, add..	0.1¢
With steam heat, add.....	0.6¢
With tile walls in baths, add.....	0.6¢
With showers in baths, add.....	0.3¢
With first class plumbing fixtures, add.....	0.1¢
With financing and sales commission, add.....	1.8¢
With first grade roofing, add.....	0.1¢

EIGHTEEN-FAMILY MASONRY APARTMENT

Eighteen-family masonry apartment, as described on pages 82 and 83, excluding cost of financing and sales commission.....	35.0¢
With electrical refrigeration, add.....	1.2¢
With gas stoves, add.....	0.3¢
With beds, add.....	0.1¢
With iron rear porches & steps, add....	1.2¢
With financing & sales commission, add.	2.6¢

THIRTY-FAMILY REINFORCED CONCRETE APARTMENT



Thirty-family reinforced concrete apartment, as shown and described on pages 92 and 93, excluding cost of financing and sales commission.....	39.0¢
With electrical refrigeration, add.....	1.1¢
With gas stoves, add.....	0.2¢
With iron rear porches & steps, add....	1.2¢
With financing & sales commission, add.	3.0¢